Federal Housing Finance Agency

1700 G Street, N.W., Washington, D.C. 20552-0003
Telephone: (202) 414-3800
Facsimile: (202) 414-3823
www.fhfa.gov

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Ms. Suzanne Hutchinson
Executive Vice President
Mortgage Insurance Companies of America
1425 K Street, NW
Suite 210
Washington, DC 20005

Dear Ms. Hutchinson:

On Wednesday, in conjunction with the announcement of President Obama's housing program, FHFA agreed to Fannie Mae and Freddie Mac initiatives for refinancing certain high loan-to-value (LTV) mortgages. Because the Enterprises' charters generally require some form of credit enhancement for new mortgages above 80 percent LTV, and because your industry is a critical source of such credit enhancement, I would like to explain the special provisions placed on the Enterprises' refinance initiative.

The refinance initiative announced Wednesday covers only mortgages that Fannie Mae and Freddie Mac already hold in their portfolio or guarantee through their MBS. Thus, they already hold the credit risk on the mortgage. For those mortgages that at the time of origination were above 80 percent LTV, there exists some form of credit enhancement, in most cases private mortgage insurance. For those that had LTVs below 80 percent at origination, no additional credit enhancement was needed.

The target beneficiaries of this initiative are those homeowners who are current on their mortgages. The initiative is premised on the unusual and exigent market circumstances that preclude such homeowners from refinancing to a lower rate mortgage because of the combined effects of the decline in house prices and limited availability of mortgage insurance.

The refinance initiative allows a borrower with a mortgage held or guaranteed by Fannie Mae (Freddie Mac) to refinance into a new mortgage that would be held or guaranteed by Fannie Mae (Freddie Mac). The key characteristic of this initiative is that the borrower need not obtain additional credit enhancement (such as private mortgage insurance) on the refinanced loan in excess of what is already in place for that loan. That is, the overall credit exposure of the Enterprise would not increase after the refinance. In fact, credit risk would be reduced because, after the refinance, the borrower would have a lower monthly mortgage payment and/or a more stable mortgage payment.

There are several important limitations placed on the refinances permitted under this initiative:

1. The refinance will not have a cash-out component, except for closing costs and certain *de minimis* allowances to cover items such as association fees, property tax bills, insurance costs, and rounding adjustments;
2. The Enterprise will use its best efforts to continue existing mortgage insurance coverage;
3. Monthly principal and interest payments will be reduced or the borrower will be refinanced from a more risky loan (such as interest-only or a short-term ARM) to a more stable product; and
4. The initiative extends only through June 10, 2010.

With respect to the second condition, we intend that the Enterprises would seek to carry forward to the new loan the existing mortgage insurance contract, where applicable. At a minimum, this would be at the same dollar coverage and premium as exists with the existing mortgage. I encourage MICA member companies to work with Fannie Mae and Freddie Mac to ensure that the existing mortgage insurance coverage carries forward from the old loan to the new loan. If a mortgage insurer and an Enterprise reach an agreement to increase the amount of mortgage insurance on the refinanced loan, so much the better. But in any event, our goal is to ensure that the existing mortgage insurance continues at the same dollar amount and price as with the original loan. For that, the Enterprises and the homeowner need the assistance of the mortgage insurer. Thus it would be beneficial to the success of this initiative for mortgage insurers to work with both companies as they move towards implementation.

For a borrower whose original mortgage was less than 80 percent LTV but now is above that level because of house price declines, no mortgage insurance will be required. Still, the initiative does not preclude mortgage insurance from being obtained.

In layman's terms, the refinance initiative is akin to a loan modification for charter purposes as it affects loans for which an Enterprise already holds the credit risk. By creating an avenue for the borrower to reap the benefit of lower mortgage rates in the market, the credit risk of that mortgage to the Enterprise diminishes; thus, this is a loss-mitigation initiative in this very troubled time in housing finance. It has the added benefit of helping many households strengthen their own financial situation and enhance their commitment to their home and community.

With the goal of assisting borrowers that, in turn, will lower their credit risk, this initiative fits within existing charter goals of providing market stability and assisting home ownership while meeting safety and soundness concerns. Thus, I have determined that the Enterprises' request for this limited authority does not run contrary to their charters nor does it represent a new product, so I have not objected to the initiative, subject to the limitations I listed above. FHFA will maintain its oversight over the initiative as part of its safety and soundness responsibilities.

Before closing, I would reiterate my belief in the importance of a vibrant, healthy private mortgage insurance market for conventional mortgages. Mortgage insurers, as participants in the assessment and pricing of mortgage credit risk, play an important role in our housing finance system. While the extraordinary circumstances in housing finance have greatly stressed mortgage insurers, I remain hopeful that the industry successfully recapitalizes so that it may continue its important role. I will continue to work with policymakers and industry representatives to achieve that end.

Yours truly,

James B. Lockhart III
Director, Federal Housing Finance Agency
Chairman, FHFA Oversight Board